

Headquarters U.S. Air Force

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Air Force Housing Privatization Lessons Learned PHMA PDS XVI

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AF/ILEH

26 January 2004



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Air Force Sources of Housing

- **Local community housing first**
- **Privatization**
- **Military Construction (MILCON)**
- **Operations and Maintenance (O&M)**
Funding to maintain existing housing





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Air Force Housing Privatization Goal

Accelerate our ability to eliminate inadequate housing units and provide military families access to safe, quality, affordable, well-maintained housing in a community where they will **CHOOSE to live**



**Elmendorf AFB, AK
828 Units Status:
Complete**



**Robins AFB, GA
670 Units Status :
Complete**



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MILITARY BRATS

BY STEVE DICKENSON



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The Standard Approach

- **Non-FAR Real Estate Transaction**
- **50 Year Ground Lease of Existing Housing Area**
- **Deed or Bill of Sale of the Existing Improvements**
- **Gov't May Provide Loan and/or Limited Loan Guarantee**
- **Basic Allowance for Housing (BAH) Paid to Member**
- **Member's Rent = BAH minus Average Utility Costs**
- **Member Pays Rent by Allotment**
- **Member Pays Utilities to Developer or Other Provider**
- **Member not required to live there**
- **If not 95% occupied by military, then others permitted to rent**



Patrick AFB, FL
552 Units Status: Started 1 Oct 03



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Requirements To Privatize

Privatization projects criteria

- **3:1 Leverage**
- **Max of 80% Gov Participation**
- **Government Loan < Private**
- **Privatization lifecycle < MILC**





AF Evaluation Process

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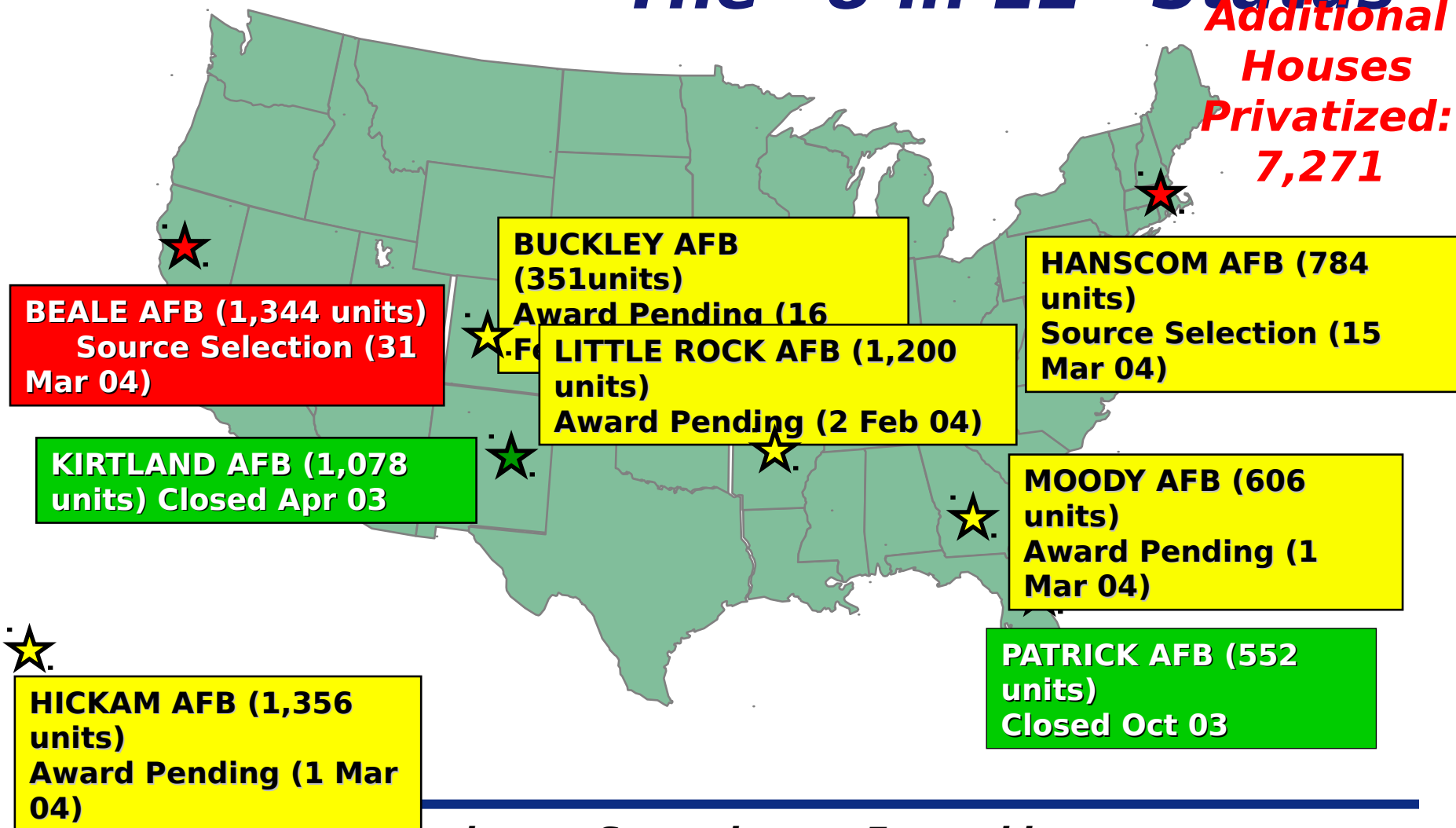
- **Two-step Solicitation and Evaluation**
 - Integrated, “Best Value” assessment against RFP factors
- **Step 1 offerors evaluated on qualifications, past performance and initial concept proposal**
 - No more than 5 Offerors are “down-selected” to move to Step 2
- **Step 2 Source Selection Team evaluates offerors detailed proposal**
- **The selection authority chooses offeror providing “Best Value”**
 - SAF/IEI concurs selection
- **RFP identifies minimums & AF’s desired features**



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Housing Privatization Projects: The "8 in 12" Status

**Additional
Houses
Privatized:
7,271**



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Starting in March 2004: The Rest of the Identified

BASE *Projects*

BASE

- 1. Hill AFB, UT**
- 2. Cannon AFB, NM**
- 3. Shaw AFB, SC**
- 4. Offutt AFB, NE**
- 5. Elmendorf AFB II, AK**
- 6. Langley AFB, VA**
- 7. Nellis AFB, NV**
- 8. Eglin/Hurlburt AFB, FL**
- 9. Holloman AFB, NM**
- 10. Dover AFB, DE**
- 11. Wright-Patterson AFB II, OH**
- 12. McGuire AFB/Fort Dix, NJ**
- 13. Altus AFB, OK**
- 14. Lackland AFB II, TX**

- 15. Sheppard AFB, TX**
- 16. Luke AFB, AZ**
- 17. Tinker AFB, OK**
- 18. Barksdale AFB, LA**
- 19. Maxwell AFB, AL**
- 20. FE Warren AFB, WY**
- 21. McChord AFB, WA**
- 22. Columbus AFB, MS**
- 23. Keesler AFB, MS**
- 24. Scott AFB, IL**
- 25. Fairchild AFB, WA**
- 26. Travis AFB, CA**
- 27. Tyndall AFB, FL**
- 28. Hickam AFB II, HI**



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Existing and Future Project Comparisons

	7 Awarded Projects (Dec 03)	9 Planned Awards (Jun 04)
Total # Units Privatized	5,486	10,633
Total # Units Replaced	3,027	4,847
Total # Units Renovated	517	5,667
Total Development Costs (\$M)	\$583.5	\$1,459.5
AF Contribution (Scoring Costs)	\$93.4	\$77.29
Leverage	6.25:1	23.85:1
Debt (Direct	\$190.3	\$384.9

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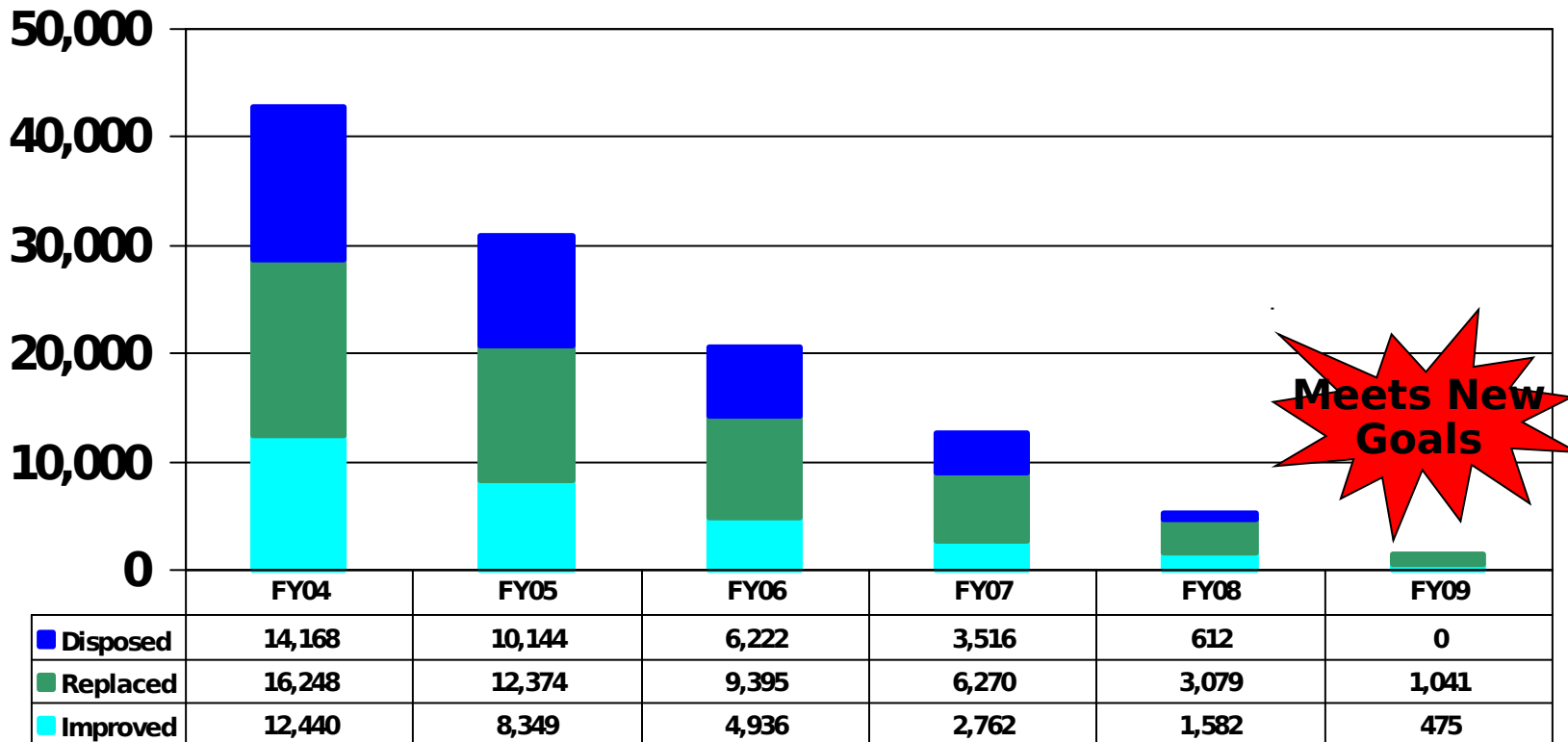


AF/OSD Out of Court Settlement Update

Total AF Inadequate Units

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- **Agreement: Eliminate inadequate housing at all bases in the US by 2007, except for 4 northern bases by 2008, and overseas bases by 2009**
- **Chart shows total remaining AF inadequate units each Fiscal Year**



NOTE: This programming data is based on a combination of the 2002 Family Housing Master Plan (FHMP) requirements, and approved Housing Requirements and Market Analysis (HRMA) results. HRMA results at some bases are being finalized. The 2004 FHMP will include all requirements.

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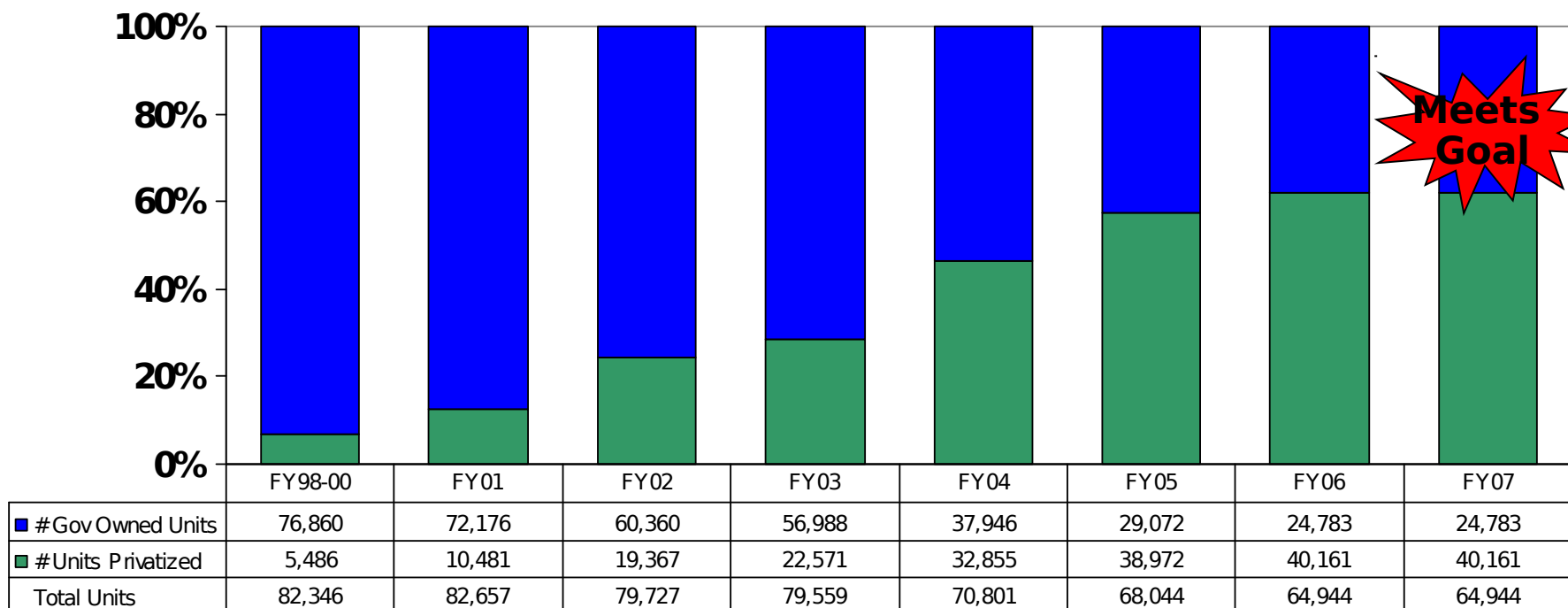


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AF/OSD Out of Court Settlement Update

U.S. Housing Units Privatized

- **Agreement:** Increase planned privatization to achieve a notional end state of 60% of the Air Force inventory in the US and its territories
- **Chart shows cumulative total of Air Force units privatized by Fiscal Year & Percentage**



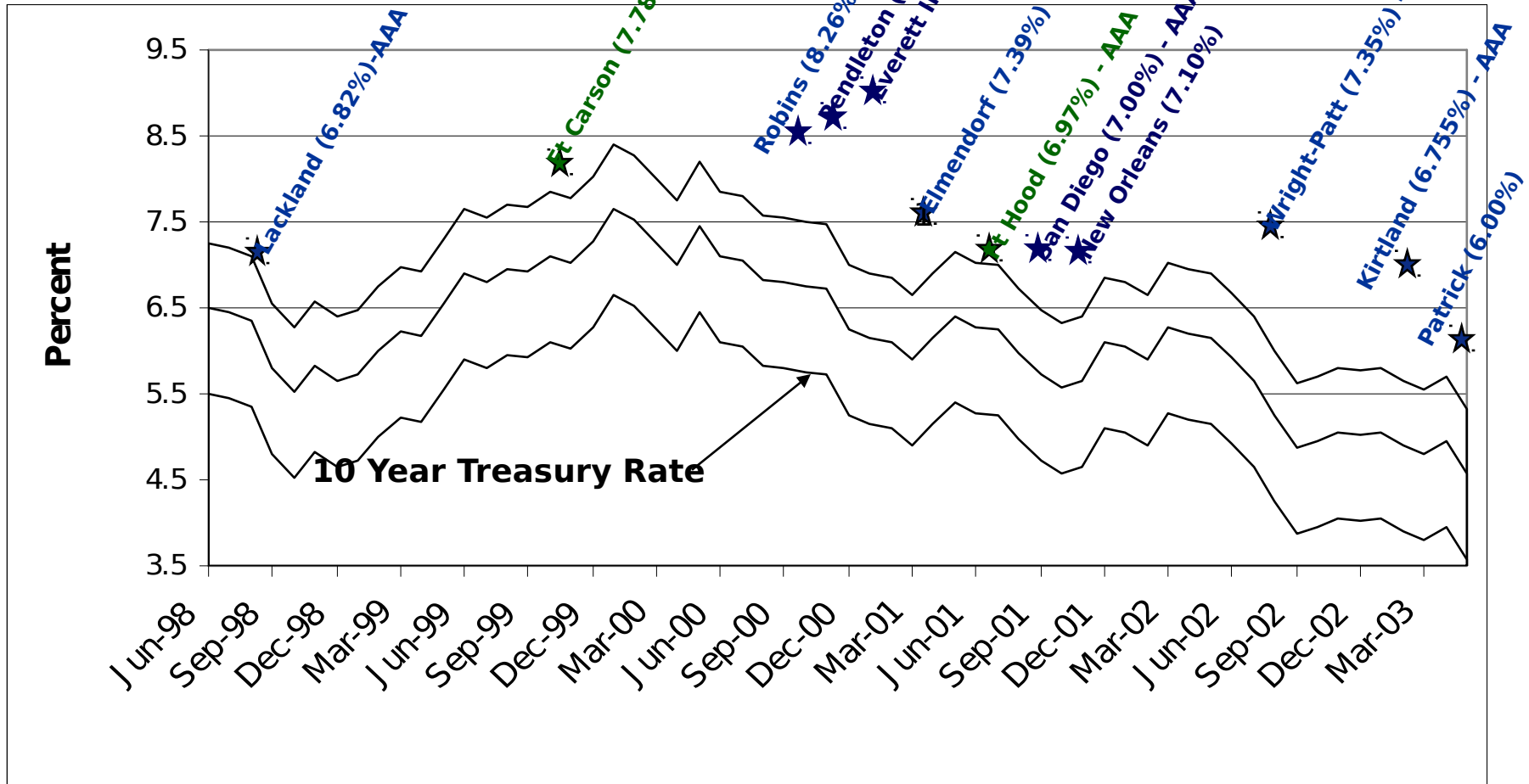
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How Well are We Doing?



Spread Range: AAA to BBB (100 to 175 bps over 10 Yr Treasury)

Source: OSD PEP Report

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Taking a More Active Role in Project Financing

- **Financial Sub-committee formed to investigate and improve private sector financing terms and rates through various “outside-the-box” concepts including:**
 - **Hire a financial consultant to work with lenders**
 - **Bifurcate the process allowing AF to choose lender and developer in separate selection processes**
 - **Identify a “stable of lenders” who are knowledgeable in HP**
 - **Require the developer to present financing letters from multiple lenders and provide the AF a comparison**
 - **Provide education for the financial community on HP**
- **Jones Lang Lasalle hired to bring concept to executable state**
 - **Resulting process will be a hybrid of bifurcation, “stable of lenders”, and the requirement for multiple lenders**
 - **Lender education will be an AF continuing effort**
 - **Proposed documents and implementation plan due mid-Dec**



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AF Issues and Lessons Learned

- **General Officer and Historic Quarters**
- **2 Bedroom vs. 3 Bedroom Units**
- **Davis-Bacon Wages**
- **Fire and Police Reimbursement**
- **Units above the HRMA**
- **Force Protection**
- **Addressing excess cash in the deal**
- **Housing privatization training**



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GOQs and Historic Units

Discussion:

- Some MAJCOMs have been reluctant to include GOQs and historic units in their privatization projects, while other MAJCOMs have successfully and willingly included them
- CSAF policy is to consider all housing units in privatization deals
- RFP should include specific requirements for historic properties and GOQs; refer to Generic RFP for current language
 - Could include MOA with State Historical Preservation Office and specifics from the GOQ Individual Facility Profile
 - Also can have developer return the historical units back to the AF at the end of the 50-year deal

Bottom Line: MAJCOMs include historic units and GOQs in their whole-base privatization deals; changing generic RFP language; SAF/IE policy letter to be released



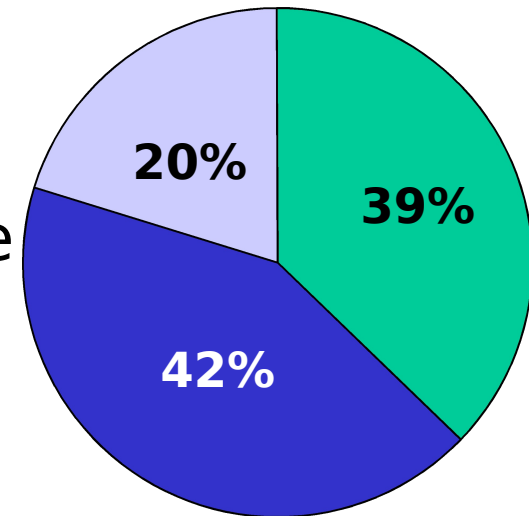
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2-Bedrooms vs. 3-Bedrooms in

Discussion: *Military Family Housing*

Hanscom AFB

- Current HRMAs include 2 BRs
 - 3BR #1 or #2 privatized desired enhancement
 - Most developers prefer 3BR due to expected market demand
- MAJCOMs/bases prefer no 2BR, but 42% of requirement is 2BR
- AF now permits all 3BR in housing privatization if affordable or as a desired enhancement where not affordable
- **Bottom Line:** AF has published new modified-2 Bedroom Standard



■ 2 BR ■ 3 BR ■ 4 BR



Davis-Bacon Wage Rates

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Discussion:

- Federal contracts for construction or repair of public building or public work require specific Department of Labor wage rates
 - Generally higher than local rates
- AF interpretation is Davis-Bacon Act (DBA) applies on a case by case basis
 - ACC opinion on Dyess concluded DBA did not apply
 - AF has left determination to local installations and project specifics
- Congressional interest that DBA applies to Hawaii projects
- **Bottom Line:** While application of DBA is the norm, AF supports continuing DBA determination on case by case basis



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Fire and Security Reimbursement

Discussion:

- At the Mar 03 PMR, draft policy caused problems with the \$350 initial estimate
 - MAJCOMs had concerns about “busting” the deals financially
- Policy has been well defined with AF/XOF and AF/ILE approval of the approved methodologies
 - Fire Protection reimbursement based on average of annual fire responses over a five year period
 - Security reimbursement methodology based on flat rate reimbursement per unit
- AFCEE and SAF/FMCE posted the methodologies on their housing privatization web sites

Bottom Line: AF uses approved fire and security reimbursement methodologies to input into project proforma



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Constructing Units Above the HRMA (HMA)

Discussion:

- OSD policy is to build to HRMA requirements
 - HRMA process was accelerated to provide new baseline
- After HRMA, Phase II projects may result in “excess” homes
- Additional homes could provide additional income
 - Restructure phase I into revised whole base phase II
 - Convey units to developer for “demand” or 100% civilian use
- Keeping excess homes may be prudent if scored cost is zero

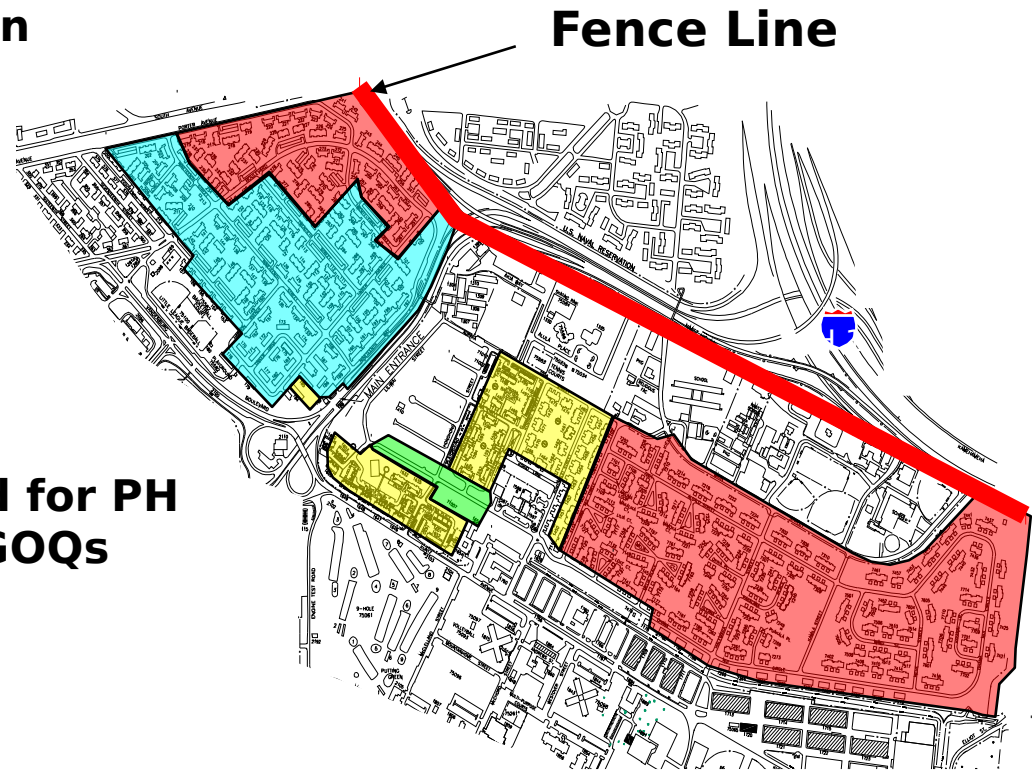
Bottom Line: Addressing surplus units using privatization can be worked as part of the deal structure



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Force Protection in HP: Inside the Fence Line

- **DISCUSSION:** Force Protection in Privatized Housing
- **ASSUMPTIONS**
 - PH will remain inside the fence line
 - AF will provide Fire and Police services on a reimbursable basis
- **FORCE PROTECTION**
 - No special measures required for PH
 - Developer required to build GOQs with appropriate security
 - Force protection provided to perimeter
 - Standoff distances should be addressed in within perimeter upgrade projects.
 - AF will continue responsibility to maintain perimeter defenses
 - FP still permitted for PH residents



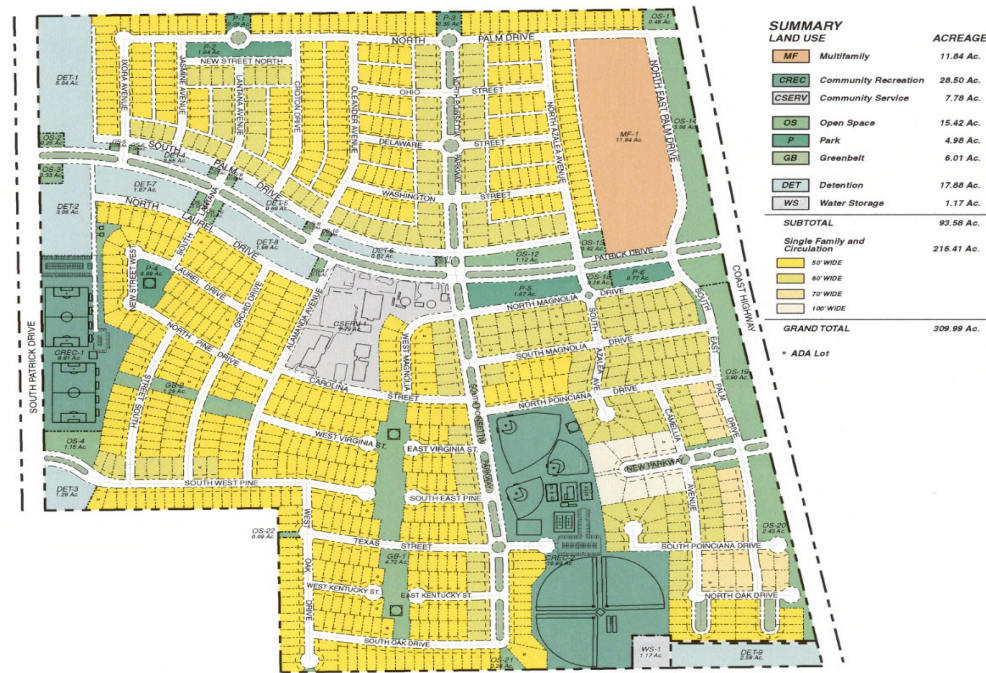
Hickam AFB



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Force Protection in HP: Outside the Fence Line

- Perimeter defense measures will not be required in geographically separate and severed PH
- Local law enforcement will provide security. FP still permitted for residents of off-base PH (AF/JAG Opinion)
- RFP will require developer to fund NCIC background check on any perspective GP tenant
- Developer must assess surrounding neighborhood around PH



Patrick AFB



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Recouping Excess Funds in a Deal

Discussion

- **Air Staff looking at multiple approaches**
 - **Land Lease Payments**
 - **Section 2883 DoD Housing Funds**
 - (c) Credit to funds – there shall be credited to the DoD FHIF the following: (c) Proceeds from the conveyance or lease of property or facilities under section 2878 of this title for the purpose of carrying out activities under this subchapter with respect to military family housing.
 - **Defining a higher rate of Partial BAH**
 - **Scale the BAH rate for privatized housing to make deal viable**
 - **Funds would actually be saved, rather than recouped**
- **Bottom line: resolving issue may increase number of bases AF privatizes**





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Housing Privatization Education

Discussion:

- AF developing HP training and education progr
 - Developing Asset Management Course through University of Maryland
 - First 2-week session 20-24 Oct and 1-5 Dec 2003
 - Reports are last week as unqualified success
 - Other avenues like PHMA, AFIT, LL conference, AFCEE in place
 - Town hall meetings and base publicatio key for base populous





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Summary

- **Housing privatization is accelerating**
- **It's the right tool for the Air Force**
- **The Air Force is on track to improve housing for our military members and their families**
 - **Congressional authorities give us the tools we need and the long term commitment to our families**

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